

**RESULTS ACT PERFORMANCE MEASUREMENT
FOR THE MINORITY SMALL BUSINESS AND
CAPITAL OWNERSHIP DEVELOPMENT PROGRAM**

AUDIT REPORT 1-11

MARCH 27, 2001

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**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

AUDIT REPORT
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To: William A. Fisher
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Contracting & Business Development

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Associate Administrator, Business Development

From: Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit Report-Results Act Performance Measurement for the Minority Small
Business and Capital Ownership Development Program

Attached is a copy of the subject audit report. The report contains three findings and four recommendations. The findings in this report are the conclusions of the Office of Inspector General's Auditing Division. The findings and recommendations are subject to review and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution. Please provide your management decision for each recommendation addressed to you on the attached SBA Forms 1824, Recommended Action Sheet, within 30 days.

Should you or your staff have any questions, please contact Robert Hultberg, Director, Business Development Programs Group at (202) 205-7204.

**AUDIT REPORT
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CAPITAL OWNERSHIP DEVELOPMENT PROGRAM**

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SUMMARY

In 1998, Congressional leaders requested that Inspectors General review how effectively their agencies are measuring performance under the Government Performance and Results Act of 1993 (Results Act) and the reliability of the underlying data. In response to these requests, the Office of Inspector General initiated a series of audits to evaluate the goals and performance indicators the Small Business Administration (SBA) developed for its major programs. This report examines whether SBA meets the performance measurement requirements of the Results Act for the Minority Small Business and Capital Ownership Development (8(a) BD) program.

In enacting the Results Act, Congress intended to improve the effectiveness and efficiency of Federal programs by establishing a system to set goals for program performance and to measure results. To implement this Act, executive agencies must prepare multi-year strategic plans, annual performance plans that include performance indicators, and performance reports. Presently, SBA's Acting Ombudsman has overall responsibility for coordinating the implementation of the Results Act for all SBA programs. The Office of Government Contracting & Business Development (formerly the Office of Government Contracting & Minority Enterprise Development) developed 8(a) BD program performance measures based on guidance provided by officials responsible for coordinating SBA's Results Act implementation. To answer the objective of whether SBA meets the performance measurement requirements of the Results Act for the 8(a) BD program, we determined whether: (1) goals align with the statutory mission, (2) indicators align with goals, and (3) reliable data exists.

SBA has not adequately implemented performance measurement requirements of the Results Act for the 8(a) BD program. SBA's definition of success for the 8(a) BD program contained in its Fiscal Year (FY) 2001 Results Act Annual Performance Plan (Performance Plan) omitted the measures of success for the 8(a) BD program as defined by law. As such, the Performance Plan does not inform Congress how successful the 8(a) BD program is, as the law defines success. We also found that:

- the Performance Plan lacked effectiveness and efficiency performance indicators for the 8(a) BD program;
- the data contained in the SBA database for the 8(a) BD program was generally accurate concerning which fiscal year that 8(a) BD program participants (8(a) firms) left the program; and
- some performance data was unreliable or incorrectly described.

We recommend that the Associate Deputy Administrator, Government Contracting & Business Development, in coordination with the SBA Official responsible for coordinating SBA's Results Act implementation, ensure that:

- SBA define success for the 8(a) BD program in accordance with Public Law 100-656;

- the Performance Plans include indicators that allow for a determination of how effectively and efficiently the 8(a) BD program is operating; and
- the Performance Plans accurately describe and report performance goals and data.

We also recommend that the Associate Administrator, Business Development implement a tracking system, which ensures that termination requests of 8(a) firms are tracked through final resolution.

In response to our draft report, the Acting Associate Deputy Administrator, Government Contracting & Business Development and the Associate Administrator, Business Development verbally informed us that they took no exception to the audit results presented in our draft report. In addition, one of the SBA officials responsible for coordinating the implementation of the Results Act in SBA provided informal comments, generally agreeing with our findings. We analyzed these comments and modified the final report, as appropriate.

INTRODUCTION

A. Background

In 1993, Congress passed the Results Act with the objective to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Results Act is intended to improve the effectiveness and efficiency of Federal programs by establishing a system to set goals for program performance and measure results. Performance indicators are values or characteristics used to measure results associated with annual goals and are an integral part of annual performance plans and reports. The Results Act requires agencies to prepare annual reports on their performance for the previous fiscal year.

Sections 7(j) and 8(a) of the Small Business Act authorize the 8(a) BD program. A purpose of both of these sections is to promote the competitive viability of 8(a) firms by providing “such available financial, technical, and management assistance as may be necessary.” In “A Report to the U.S. Congress on Minority Small Business and Capital Ownership Development for Fiscal Year 1999,” SBA reported that the 8(a) BD program provides “a menu of business development resources such as marketing, managerial, technical, financial and procurement assistance.” Companies owned by socially and economically disadvantaged individuals can participate in the 8(a) BD program for up to nine years. At the end of Fiscal Year (FY) 1999, there were 5,969 8(a) firms. During FY 1999, \$6 billion of contract actions and modifications to existing contracts were awarded under the 8(a) BD program, of which, \$4.3 billion were awarded to active 8(a) BD firms.

B. Objectives and Scope

This report examines whether SBA meets the performance measurement requirements of the Results Act for the 8(a) BD program. To fulfill this objective, we sought answers to three basic questions. Do the program’s goals align with its statutory mission? Do the performance indicators align with the goals and show the results of the program in terms of effectiveness and efficiency? How reliable is the supporting data? To answer these questions, we reviewed SBA’s FY 2001 Performance Plan, the Small Business Act, and Public Law 100-656.

We identified the relationships between the mission and goals of the 8(a) BD program. To evaluate the extent to which the performance goals and indicators aligned with the statutory mission, we compared the goals and indicators to each aspect of the mission to ensure that all aspects were addressed.

To determine whether the performance indicators addressed the Results Act requirement of effectiveness and efficiency indicators relative to the statutory objectives of the program, we established the following categories:

- Outcomes
- Service quality (Customer – Partner)

- Cost
- Process/Output
- Financial.

We examined the indicators and identified the category of effectiveness and/or efficiency for each indicator. If an indicator could not be linked to a category, and did not meet the definition of effectiveness or efficiency, we did not consider it an indicator of effectiveness or efficiency.

To determine whether 8(a) BD performance indicators were supported by reliable data, we traced reported performance measurement data for FY 1999 back to supporting documents in 10 SBA District Offices. We analyzed the underlying data to determine whether it was sufficient, accurate, consistent and timely.

Fieldwork was performed from November 2000 to February 2001. The audit was performed in accordance with generally accepted Government Auditing Standards.

We issued a draft report to the Agency officials responsible for the findings and recommendations in this report on March 8, 2001. These officials did not provide us a written response to each finding but informed us verbally that they took no exceptions to the findings and recommendations presented in the report.

RESULTS OF AUDIT

Finding 1: SBA's Definition of Success for the 8(a) BD Program Differed from Statute

SBA's definition of success for the 8(a) BD program contained in its Performance Plan omitted the measures of success for the 8(a) BD program contained in the law. As such, the Performance Plan does not inform Congress how successful the 8(a) BD program is, as the law defines success.

SBA's Performance Plan measured the success of the 8(a) BD program as the percent of 8(a) firms completing the nine-year program or graduating early and receiving business development assistance. For FY 1999, SBA reported that 68% (345 of the 510) of the firms completed the program or graduated early and received business development assistance. Of these 345 firms, one graduated early and 344 graduated, i.e., completed their nine-year terms. The one firm which graduated early met its competitive mix requirements, i.e., not being unreasonably reliant on 8(a) contracts, substantially achieved the targets, objectives, and goals set forth in its business plan, and demonstrated the ability to compete in the marketplace without assistance under the 8(a) BD program. The 344 graduated firms maintained their program eligibility during the nine-year program term, but at the end of their program term, SBA did not determine that each firm met its competitive mix requirements, substantially achieved the targets, objectives, and goals set forth in its business plan, or demonstrated the ability to compete in the marketplace without assistance under the 8(a) BD program. SBA classified all 8(a) firms as having received business development assistance since they all were required to attend an orientation briefing upon entering the program and were invited to annual meetings (see Finding 3).

Public Law 100-656 states that:

... the measure of success of the Capital Ownership Development Program and the section 8(a) authority, shall be the number of competitive firms that exit the Program without being unreasonably reliant on section 8(a) contracts and that can compete in the mainstream of the American economy. . .

According to § 7(j)(10)(H) of the Small Business Act, an 8(a) firm demonstrates its ability to compete in the marketplace without assistance from the 8(a) BD program by substantially achieving the targets, objectives, and goals contained in that firm's business plan. SBA did not have any measures to capture this aspect.

RECOMMENDATION

- 1A. We recommend that the Associate Deputy Administrator, Government Contracting & Business Development, in coordination with the SBA Official responsible for coordinating SBA's Results Act implementation, ensure that SBA measure the success of the 8(a) BD Program in accordance with the measure of success prescribed in Public Law 100-656.

Finding 2: Need for Effectiveness and Efficiency Indicators for the 8(a) BD Program

Performance indicators reported in SBA's Performance Plan did not include effectiveness and efficiency indicators for the 8(a) BD program. The absence of these indicators precludes Congress from determining how effectively and efficiently the 8(a) BD program is operating.

The indicators reported in the Performance Plan do not measure effectiveness and efficiency because they do not provide information relative to aspects of performance, e.g., outcome, service quality, and cost. The Results Act intended to improve congressional decision making by providing more objective information on achieving statutory objectives and the relative effectiveness and efficiency of Federal programs and spending. Effectiveness and efficiency indicators would allow for an assessment of how timely and accurately the 8(a) BD program provided participants (customer) with the business development assistance (service delivery) needed to compete (service quality), and whether assistance was provided in a cost efficient manner (cost).

The 8(a) BD indicators in the Performance Plan are: (1) percentage of firms that completed the nine-year term or graduated early and received business development assistance, (2) firms receiving mentoring, and (3) percentage share of Federal contract dollars to 8(a) firms. These indicators do not measure how well SBA achieved its purpose of assisting eligible small disadvantaged business concerns compete in the American economy through business development. The business development assistance referred to in the first indicator was an orientation briefing and invitations to attend annual 8(a) BD meetings (see Finding 3). The second indicator was mentoring, a form of business development assistance used by only 26 of the 5,969 firms in the 8(a) BD program at the end of FY 1999. The third indicator was a government-wide small business goal, not an 8(a) BD program goal. Together, these indicators provide minimal information relative to the number of participants assisted, the amount of business development assistance provided, whether the assistance provided addressed competitive needs in a timely manner, or the cost of providing business development assistance. Therefore, these indicators are insufficient to show, in a substantive way, how effectively and efficiently SBA is managing the 8(a) BD program.

RECOMMENDATION

- 2A. We recommend that the Associate Deputy Administrator for Government Contracting & Business Development, in coordination with the SBA Official responsible for coordinating SBA's Results Act implementation, ensure that the Performance Plans include performance indicators that allow for a determination of how effectively and efficiently the 8(a) BD program is operating.

Finding 3: Some Performance Data for the 8(a) BD Program was Unreliable or Incorrectly Described

The success rate data for 8(a) firms, although technically accurate according to SBA's definition in the Performance Plan, was unreliable because firms were permitted to remain in the 8(a) BD program without SBA servicing (no contact with the firm and no annual review completed) these firms, and SBA did not process several terminations. SBA did not take appropriate action to follow-up or terminate certain firms even though circumstances warranted SBA's intervention. As a result, SBA does not know whether these firms should have remained in the 8(a) program for the full nine-year term, and as such be classified as successes. We reviewed 145 firms that SBA classified as successes because they graduated, i.e., completed their nine-year program term, in FY 1999. Of these 145 firms, SBA had not serviced eight of them for over two years. One of the eight had filed for Chapter 7 Bankruptcy and another for Chapter 11 Bankruptcy protection. We also found three additional instances where SBA did not process terminations, and therefore the firms were allowed to remain in the 8(a) program where they were counted as successes. We could not pinpoint at what point SBA failed to process the paperwork since SBA did not have a central tracking mechanism to track termination requests and resolutions. Without a central tracking mechanism, SBA cannot determine whether it has processed all cases referred for termination.

Additionally, we noted a deficiency in the manner in which SBA determined that 8(a) firms received business development assistance. According to SBA's Performance Plan, in order to be considered a success, a company had to receive business development assistance. SBA, however, did not disclose that all 8(a) firms were automatically considered to have received business development assistance because every firm was required to attend an orientation briefing upon entering the program and all firms were invited to attend annual 8(a) BD meetings. In the Small Business Act, various forms of business development assistance are mentioned, including contract, financial, technical, and management assistance. We believe that "receiving business development assistance," conveys more than merely attending an orientation briefing and annual meetings. SBA does not track the business development assistance provided to 8(a) firms.

SBA mislabeled the mentor-protégé data in the Performance Plan. Although SBA actually reported the percentage of interested 8(a) firms participating in the Mentor-Protégé program, it described the measure as the percentage of Small Disadvantaged Businesses (SDBs) participating in the Mentor-Protégé program. Since the Mentor-Protégé program was designed exclusively for 8(a) firms, only those SDBs that are 8(a) firms can receive mentoring. At the time SBA gathered the Performance Plan data, there were 8,025 SDBs of which 5,401 were also 8(a)-certified, but only 1,784 8(a) firms had expressed interest in the mentor-protégé program.

RECOMMENDATIONS

We recommend that:

- 3A. The Associate Deputy Administrator, Government Contracting & Business Development, in coordination with the SBA Official responsible for coordinating SBA's Results Act implementation, ensure that the Performance Plans accurately describe and report performance indicators and data.
- 3B. The Associate Administrator, Business Development implement a tracking system, which ensures that termination requests of 8(a) firms are tracked through final resolution.

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